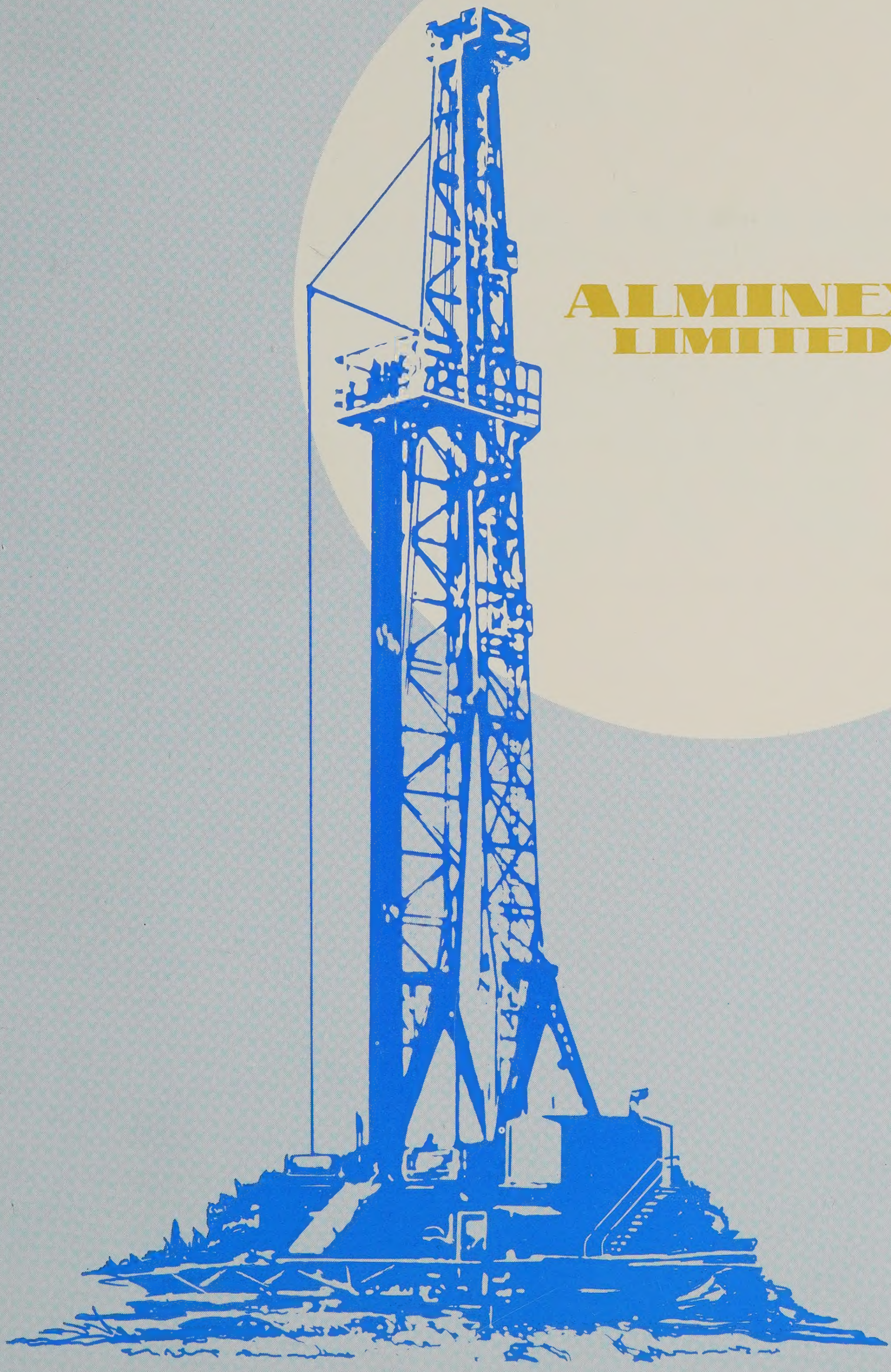
ALMINEX LIMITED



1973 ANNUAL REPORT

IN MEMORIAM

Dr. Frederick Randall Burton, a founder and President of the Company, died on July 28, 1973. Hard work, wisdom and integrity were his hallmarks, and Alminex benefited greatly from his leadership. Those who were associated with him will long remember him.

ALMINEX LIMITED

Executive Office

SUITE 300, 407 EIGHTH AVENUE, S.W., CALGARY

Fifteenth Annual Report
December 31
1973

DIRECTORS

M. A. COOPER	TORONTO
D. R. DELAPORTE	TORONTO
W. F. JAMES	TORONTO
J. E. REID	HOUSTON
J. N. STEPHEN	CALGARY
J. B. WEBB	CALGARY

OFFICERS

M. A. COOPER	CHAIRMAN OF THE BOARD
J. E. REID	PRESIDENT
W. F. JAMES	VICE-PRESIDENT
J. N. STEPHEN	VICE-PRESIDENT AND GENERAL MANAGER
A. E. SIVERTSON	TREASURER
D. G. C. MENZEL	SECRETARY

TRANSFER AGENT AND REGISTRAR

CROWN TRUST COMPANY
MONTREAL, TORONTO AND CALGARY

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AUDITORS

THORNE GUNN & CO.

ALMINEX LIMITED

Report of the Directors

TO THE SHAREHOLDERS:

Mr. Joseph E. Reid, who was appointed a Director in May of 1973, was elected in July to succeed the late Dr. F. R. Burton as President. At the same time, Mr. M. A. Cooper, President of Falconbridge Nickel Mines Limited, was elected a Director and Chairman of the Board. Mr. D. R. Lochhead retired and the Directors wish to thank him for the services he rendered.

Your Directors are pleased to present the following review for the year ended December 31, 1973.

THE COMPANY

FINANCIAL

Due to higher selling prices and increased sales volumes, Alminex's gross production revenue, after royalty, rose 46.6% over 1972, to $11,329,486. Total gross revenue, including investment and other income of $225,184, was $11,554,670. As a result of higher production, inflation, and Mineral Reserve Taxes, operating expenses increased sharply to $1,672,632. Administrative and general expenses rose to $273,471. Exploration costs, including drilling, geophysical and geological surveys, and unproven property expenses were also higher than in the previous year, and totalled $1,862,062. After subtracting these expenditures, net cash income was $7,746,505, up 52.8%. Although the provision for depreciation was lower than in 1972, those for depletion and income taxes were markedly higher at $1,648,314 and $2,293,035, respectively. Net income for the year was $3,049,436, a significant increase of 88.4% over last year. Although the financial results were favourable and permitted your Board of Directors to increase the dividends paid during 1973 to 24¢ per share, or a total of $1,837,000, the higher revenues are required if your Company is to engage in a more aggressive exploration program which will enable it to share in meeting the growing demand for energy.

Alminex's capital expenditures reached $1,900,183, exceeding the amount spent in 1972 by 7.2%. Although expenditures of $425,817 on plant and equipment showed a decline from the high levels reached in recent years, the cost of developing proven properties rose to $486,474. The largest increase in capital costs was $987,892 for the acquisition of exploration properties, the major part being spent for offshore rights in the Gulf of Mexico.

SALE OF PRODUCTION

The following table compares the average daily sales, net after royalty, of crude oil, natural gas liquids (NGL), natural gas and sulphur for 1973 with those of 1972.

	1973	1972	Increase (Decrease)
Crude Oil (Bbls.)	6,805	5,388	25.9%
Natural Gas Liquids (Bbls.)	783	736*	6.1%
Natural Gas (Millions of Cubic Feet)	23.6	21.2*	11.0%
Sulphur (Long Tons)	12	14*	(14.5%)

*Restated

The tables on pages 16 and 17 compare the total sales on a field-by-field basis for the same two years.

Crude Oil

The increase in net crude oil sales was obtained from such high-reserve fields as Swan Hills, Virginia Hills, Mitsue and others, and reflected the large capital expenditures made in recent years in order to increase production.

During the year, price increases totalling 85¢ per barrel became effective. Toward the end of the year, the Federal Government requested a voluntary price freeze with which the industry complied. Subsequently, the Federal Government imposed an export tax initially of 40¢ per barrel on all oil sold to the United States, thereby diverting to itself funds that should have accrued to the industry.

By a mid-year election, retroactive to January 1, 1973, Alminex began paying to the Alberta Government a Mineral Reserve Tax on approximately 90% of the oil production it derives from Crown leases and on all production from Freehold leases. This tax was in addition to existing royalties. On the remaining Crown lease production, a higher royalty, which ranges up to almost 25%, became payable.

Natural Gas Liquids

The selling prices of natural gas liquids (NGL), which were often weak in recent years, firmed considerably. At year-end, condensate sold for $4.17 per barrel, a rise of $1.05 per barrel, and propane and butane were up an average of $2.26 per barrel.

Natural Gas

The increase in net sales of natural gas was due largely to the Harmattan-Elkton field, which went onstream late in 1972. Effective July 1, 1973, Alberta and Southern Gas Co. Ltd. increased prices on the small amount of gas it buys from Alminex from a range of 14.7¢ per Mcf to 16.8¢ per Mcf to a range of 25¢ per Mcf to 27¢ per Mcf. Under those contracts with TransCanada PipeLines Limited which provided for price redetermination negotiations to begin either on January 1, 1973, or January 1, 1974, the prices were increased from an average of 15.2¢ per Mcf to 26¢ per Mcf, effective November 1, 1973, and January 1, 1974, respectively. In addition, the prices received from Alberta and Southern and TransCanada will increase yearly by 1¢ per Mcf. Canadian-Montana Gas Company Limited also increased the purchase price of gas from the Pendor field to 23.5¢ per Mcf, with an escalation of ½¢ per Mcf per annum. All amending agreements provide for price redetermination every two years. Approximately 50% of Alminex's total gas production is affected.

Sulphur

Although net sulphur sales declined, sulphur prices firmed somewhat.

EXPLORATION

Drilling

During 1973, a total of 28 exploratory wells were drilled, and three were drilling at year-end, on Alminex's acreage, down from last year's total of 36 wells. Ten of the wells were drilled by farmees at no out-of-pocket expense to your Company. This program resulted in six gas discoveries of which five were in Alberta and one in British Columbia, and two oil discoveries both in Alberta.

The discoveries were as follows:

A gas discovery at Hutton, Alberta in which Alminex has a 12.5% interest. The reservoir, however, may prove to be limited in area.

A gas discovery at Niton, Alberta, which extends an already substantial gas field. Alminex's interest is 6.25%.

A dual oil and gas discovery at Medicine River, Alberta, in which your Company has a 25% interest. Natural gas liquids will be produced with the gas discovered. It appears that substantial volumes of gas will be produced with the oil which will penalize production, but efforts will be made to permit the concurrent marketing of both gas and oil to eliminate this penalty. Alminex's land holdings total 4¼ sections and the productive area appears likely to extend over most of your Company's lands in the vicinity of the discovery.

Gas discoveries at Beaton and Blueberry Mountain, Alberta and at Caribou, British Columbia.

The second oil discovery is at Harmattan, Alberta, and it is currently being production tested.

Of the 21 dry exploratory holes, 18 were drilled in Canada: 1 in Ontario, 2 in Saskatchewan, 12 in Alberta, 2 in British Columbia and 1 in the Northwest Territories. A further unsuccessful exploratory test was in the Italian portion of the Adriatic Sea. This represented your Company's first drilling venture outside North America since 1969, when, through a farmout to Falconbridge, it participated in drilling two wells in the British sector of the North Sea. Two wells drilled in the United States were located in Wyoming and the Gulf of Mexico, offshore from Texas. The former was abandoned for mechanical reasons, and the latter was temporarily abandoned pending further exploration. A substitute for the Wyoming well was drilling at year-end, and exploratory tests were being drilled at Snipe Lake and Sneddon in Alberta.

Athabasca Oil Sands

The Bituminous Sand Lease No. 30, comprising 37,715 acres in which Alminex has a 12.5% interest, continued to be evaluated by stratigraphic drilling. A number of wells, principally core holes, were drilled during the year and the program will continue until the end of the 1973-74 winter season. Concurrent with this program, engineering and environmental studies were expedited. The information so far assembled suggests that this Lease can be economically developed if the oil can be sold for an adequate price under suitable royalty and tax regulations.

Geophysics

The acquisition of geophysical data is a growing part of your Company's exploration activities. Seismic information was purchased for the Gulf of Mexico covering our area of participation, and other data obtained for a portion of the Norwegian North Sea. Alminex participated in seismic surveys offshore from Honduras and in the Dutch North Sea. Domestic programs were carried out in Ontario, Saskatchewan, Alberta, and in the Northwest Territories. Other data were acquired by farmout, and Murphy Oil Company Ltd., as part of its obligation to earn from your Company a 50% interest in 5.4 million acres in the Arctic Islands, conducted a seismic and gravity survey at Strand Fiord on Axel Heiberg Island.

Land Acquisitions

The following table summarizes Alminex's land holdings under reservation and lease categories, and as to both gross and net acres, as of December 31, 1973:

	Reservations		Leases		Totals	
	Gross	Net	Gross	Net	Gross	Net
Alberta	358,503	69,340	1,179,567	208,561	1,538,070	277,901
Saskatchewan and Manitoba	159,120	68,413	104,131	33,499	263,251	101,912
British Columbia	25,822	8,607	48,014	5,824	73,836	14,431
Ontario	—	—	8,574	4,287	8,574	4,287
Yukon and N.W.T.	1,066,352	685,912	232,105	20,617	1,298,457	706,529
Arctic Islands	7,342,362	5,653,564	—	—	7,342,362	5,653,564
U.S.A.	—	—	72,552	1,650	72,552	1,650
	8,952,159	6,485,836	1,644,943	274,438	10,597,102	6,760,274

In addition to the lands in which your Company earned an interest from others by exploration, acreage was acquired by purchase, the most significant of which was located offshore from Texas in the Gulf of Mexico. At the Federal lease sale held on June 19, 1973, Alminex purchased a 1% interest in a single block comprising 5,760 acres for $53,200. Subsequently, it purchased either a 0.125% or a 0.25% interest in 11 blocks from Skelly Oil Company for $835,900 (U.S.) and received a production prepayment of $235,000 (U.S.) from Michigan Wisconsin Pipe Line Company with which to undertake the exploration of these properties. Your Company is

participating in a group, headed by Atlantic Richfield Company, which is applying for exploration licenses in the Norwegian North Sea, and in another group, headed by Home Oil Company Limited, in an application for acreage in Portugal. The results of these applications are expected during 1974.

DEVELOPMENT

Development wells drilled or drilling at year-end totalled 42, a substantial increase from the 14 wells drilled in 1972. All of the 22 successful oil wells were drilled in Alberta, 2 at Manyberries, 5 at Medicine River, 1 at Freeman, 12 at Mitsue and 2 at Swan Hills. Similarly all of the 5 successful gas wells were drilled in Alberta, 1 at Enchant, 2 at Denhart, 1 at Carstairs and 1 at Niton.

There were 13 dry holes of which 11 were in Alberta, 1 in British Columbia and 1 at Clabaugh, Wyoming.

At year-end 2 wells were drilling, 1 at Freeman and the other at Swan Hills.

RESERVES

The following table compares the proven and probable reserves of oil, NGL, natural gas and sulphur at the end of 1973 with those of the year earlier, and is net of the royalties in effect at December 31, 1973:

	Dec. 31, 1973	Dec. 31, 1972
CRUDE OIL (Millions of Barrels)		
Proven Reserves	31.57	33.83
Probable Reserves	6.50	6.47
NATURAL GAS LIQUIDS (Millions of Barrels)		
Proven Reserves	3.19	3.49
Probable Reserves	1.13	1.13

	Dec. 31, 1973	Dec. 31, 1972
NATURAL GAS (Billions of Cubic Feet)		
Proven Reserves	145.58	153.20
Probable Reserves	16.82	10.43
SULPHUR (Thousands of Long Tons)		
Proven Reserves	204	205
Probable Reserves	82	15

Oil reserves are down by approximately the amount of the year's production. Only minor reserves were attributed to the discoveries and the development wells were drilled mainly to increase productivity.

The gas discoveries made a more substantial contribution to reserves, but downward adjustments in various fields, particularly at South Elkton, coupled with the year's production, more than offset the increases and reduced the reserves remaining.

Reserves of NGL declined by the year's production. The gas discoveries have not undergone sufficient testing to determine what contribution they will make to the reserves of NGL.

Sulphur reserves rose because of an increased estimate at Harmattan Leduc, which is Alminex's principal source of production.

OUTLOOK

Alminex will participate in 12 exploratory tests on the acreage purchased in the Gulf of Mexico, and expects to bid at forthcoming Federal lease sales in this area. Additional wells will be drilled in Wyoming, Nebraska and New York, and, if pending applications are successful, drilling may begin in the Norwegian North Sea and a seismic program will be undertaken in Portugal. The seismic programs in the Dutch North Sea and offshore from Honduras will be completed and their results will be available early in 1974. The strong emphasis already placed on the evaluation of foreign exploration opportunities will be continued, and is expected to result in your Company's participation in several interesting projects.

The domestic exploration program is expected to be similar in size to that undertaken in

1973. Wells are planned in Ontario and at numerous localities in Alberta. At least one test will be located in northeastern British Columbia on a foothills structure, and one will be drilled at Carcajou in the Mackenzie Valley, Northwest Territories. At its request Murphy Oil Company has been granted a one year deferment of its drilling obligation on its farmout in the Arctic Islands.

Alminex plans to participate in geological and geophysical surveys intended to delineate areas of interest and ultimately, drilling prospects in several parts of the world. Similar programs will be undertaken in Ontario and Alberta. Murphy Oil Company will conduct a seismic program on our Norfolk Inlet permits, Devon Island.

Development of the Medicine River and Blueberry Mountain discoveries is planned, and other wells will be drilled at Manyberries, Mitsue, Pendor, Pembina, Swan Hills and Freeman. Capital expenditures for plant and equipment are expected to rise in 1974 over the previous year because of planned major additions to facilities at Carstairs, Harmattan East, Harmattan-Elkton, Mitsue and Swan Hills.

The Maximum Rate Limitations, which apply to all oil fields in Alberta are being reviewed by the Energy Resources Conservation Board. Alminex and Home Oil intend submitting an application to develop their joint Bituminous Sand Lease at Athabasca. A recent proposal by Albert and Southern to increase the price of gas it purchases from your Company to an average of 55¢ per Mcf, effective July 1, 1974, for one year, has been accepted. The decision will be taken shortly whether to accept an offer of 31¢ per Mcf from TransCanada PipeLines on certain contracts or the results of an arbitration. Negotiations with TransCanada are in progress to increase the price of gas under contracts which have either no renegotiation provision or whose provisions will not permit renegotiations for some years.

The Alberta Government has announced new royalty schedules for gas and NGL, and is shortly to announce a new schedule of royalties for oil. The new gas and NGL rates are tied to price and it is expected that oil royalties will be similarly tied. These rates, if unamended, will result in a large part of any price increases being diverted to the Government rather than being spent in the exploration for new reserves. It is hoped that the Alberta authorities will prove reasonable in modifying some of the more onerous aspects connected with the new royalty rates.

THE INDUSTRY

Unprecedented market demand resulted in substantial increases in the production of crude oil and NGL. Sales of oil and NGL from Western Canada rose 14.1%, to an average of 1,934,000 barrels per day. Of this total, 807,000 barrels per day were sold in Canada, up 8.1%, and 1,127,000 barrels per day in the United States, an increase of 18.9%. During the early part of 1973, the pattern of recent years whereby increases in production were due to the growth of exports to the United States continued, but, latterly, this pattern was disrupted. The crisis at Montreal refineries brought about by the Arab production cutbacks saw Western Canadian oil trans-shipped from Vancouver to Eastern Canada by tanker via the Panama Canal to the extent that exports to the west coast of the United States are presently substantially below last year's levels. There is no doubt that a new distribution pattern has emerged and a growing percentage of Canadian crude production will be consumed in Canada. To this end the Federal Government has discarded the former National Oil Policy's Ottawa Valley demarcation line with the result that Interprovincial Pipeline Company will extend its pipeine to Montreal.

The market for Canadian gas production increased 6.0% to 6,130 MMcf per day, of which domestic markets consumed 3,310 MMcf per day, up 9.4%, and United States markets 2,820 MMcf per day, a rise of only 2.2%. The Alberta Government maintains its embargo on additional exports from the Province except from those areas where exporters have existing permits. This policy, although laudable in its objective to obtain

a higher selling price, creates present uncertainty which restricts the exploration for, and development of, new gas reserves. There is a growing awareness in both domestic and export markets that natural gas has been under-priced and the necessity for additional supplies is increasing prices to levels which, it is hoped, will permit the embargo to be lifted.

The higher royalties to be paid, the levying of export duties on crude oil, which rose to $6.40 per barrel on February 1, 1974, and the growing involvement of Government, are matters of great concern to the industry. For many years, the industry laboured under restricted production and low prices, yet it succeeded in developing the oil potential of Western Canada. As a result, Canada can be self-sufficient in its requirement for oil if it chooses. The funds generated by increasing production rates and higher prices should be used by industry to continue the exploration and development required to meet Canada's future needs. If the economic incentives are withheld, then the industry will be unable to fulfill the job it is so ably fitted to do.

In closing your Directors wish to extend to all employees their appreciation and thanks for their conscientious and dedicated efforts during the year.

On behalf of the Directors,

Jos. E. Reid

President

Vice-President and
General Manager

Calgary, Alberta
March 11, 1974.

ALMINEX LIMITED

Ten Year Summary

	1973	1972	1971
FINANCIAL			
Gross Production (after royalty)	$11,329,486	$ 7,727,121	$ 6,457,406
Net Production Income (after operating costs)	9,656,854	6,831,842	5,653,348
Administrative and General Expense	273,471	205,074	188,405
Interest Expense	—	—	—
Exploration Expense(1)	1,862,062	1,663,468	1,451,960(2)
Depletion, Depreciation and Write-offs	2,404,034	2,208,673	1,808,332(2)
Cash Earnings (after all cash expenses)	7,746,505	5,068,838	4,094,371(2)
Net Income	3,049,436	1,618,568	1,263,039
Bank Loans Outstanding	—	—	—
OPERATING			
Net Daily Production:			
Oil and NGL (barrels)	7,588	6,124(3)	5,095
Natural Gas (thousands of cubic feet)	23,562	21,167(3)	19,642
Reserves — Net Proven:			
Crude Oil (barrels)	31,570,000	33,826,000	35,612,000
Natural Gas Liquids (barrels)	3,187,000	3,491,000	3,740,000
Natural Gas (billions of cubic feet)	145.58	153.20	159.37
Sulphur (long tons)	203,800	205,000	211,000
Net Acreage	6,760,274	7,378,799	7,468,414

(1) Includes exploration drilling, dry hole costs, geological, geophysical and unproven property expense.

(2) Restated to reflect consolidation of the United States and United Kingdom wholly-owned subsidiaries.

(3) Restated.

1970	1969	1968	1967	1966	1965	1964
$ 5,366,105	$ 4,775,003	$ 4,713,879	$ 4,397,132	$ 3,802,247	$ 3,635,583	$ 3,137,220
4,680,232	4,251,959	4,176,554	3,877,246	3,332,191	3,237,582	2,763,933
170,121	154,097	150,360	152,851	145,863	135,936	131,809
30,128	52,150	96,075	129,399	142,114	135,691	156,303
901,168[2]	1,022,724	1,217,884	1,074,540	749,111	623,341	641,956
1,519,112[2]	1,400,604	1,242,889	1,280,081	1,072,420	973,734	970,495
3,649,014[2]	3,038,017	2,735,134	2,530,494	2,295,103	2,342,614	1,833,865
976,902	943,413	747,245	917,118	1,222,683	1,385,445	863,370
—	872,000	734,000	1,812,000	2,426,000	2,390,000	2,528,000
4,406	4,003	3,762	3,446	3,199	3,025	2,603
20,696	15,848	13,900	13,400	14,047	14,523	12,704
37,176,000	38,430,000	39,280,000	40,440,000	41,140,000	41,670,000	37,036,000
3,982,000	4,040,000	4,280,000	4,500,000	4,560,000	3,470,000	2,700,000
167.60	166.54	160.39	145.96	149.25	148.06	138.08
217,000	228,000	237,000	244,000	290,000	272,000	181,000
6,941,139	7,183,206	6,947,635	2,707,183	2,691,002	716,527	679,122

ALMINEX

(Incorporated under the

and Subsidiary

CONSOLIDATED BALANCE

(with comparative figures

ASSETS

	1973	1972
Current assets:		
Cash, term deposits and investment certificates	$ 4,266,438	$ 1,768,306
Accounts receivable	1,404,136	794,999
Inventory, at lower of cost and replacement cost	56,522	68,335
Prepaid expenses	6,996	13,113
	5,734,092	2,644,753
Other assets:		
Investments, at cost		
Marketable (quoted market value 1973, $8,845; 1972, $8,000)	9,710	9,710
Other	8,481	8,481
Operating and performance deposits	154,827	76,188
	173,018	94,379
Property, plant and equipment, at cost (note 3)	49,587,036	47,761,009
Less accumulated depletion and depreciation	18,553,412	16,223,534
	31,033,624	31,537,475
	$36,940,734	$34,276,607

Approved by the Board

JOS. E. REID, *Director*

J. N. STEPHEN, *Director*

LIMITED

laws of Canada)

Companies

SHEET — DECEMBER 31, 1973

at December 31, 1972)

LIABILITIES

	1973	1972
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 680,484	$ 221,287
Income and other taxes payable	1,019,142	264,652
Current portion of prepayments on future gas deliveries	100,000	100,000
	1,799,626	585,939
PREPAYMENTS ON FUTURE GAS DELIVERIES (note 4)	608,254	445,900

SHAREHOLDERS' EQUITY

	1973	1972
CAPITAL STOCK (note 5)		
Authorized		
10,000,000 Shares without par value		
Issued		
7,662,661 Shares (1972 — 7,645,661 shares)	35,082,432	35,006,782
CONTRIBUTED SURPLUS	70,091	70,091
DEFICIT	(619,669)	(1,832,105)
	34,532,854	33,244,768
	$36,940,734	$34,276,607

CONTINGENT LIABILITY (note 6)

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
ALMINEX LIMITED

We have examined the consolidated balance sheet of Alminex Limited and subsidiary companies as at December 31, 1973 and the consolidated statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CALGARY, Alberta
February 18, 1974

THORNE GUNN & CO.
Chartered Accountants

ALMINEX LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 1973 (with comparative figures for 1972)

	1973	1972
REVENUE:		
Sale of gas and oil, less royalties	$11,329,486	$7,727,121
Investment and other revenue	225,184	105,538
	11,554,670	7,832,659
EXPENSES:		
Operating	1,672,632	895,279
Administrative and general	273,471	205,074
Exploratory drilling and dry hole costs	848,187	761,341
Geophysical and geological	699,487	524,332
Unproven property	314,388	377,795
	3,808,165	2,763,821
Income before provisions, write-offs and income taxes	7,746,505	5,068,838
PROVISIONS AND WRITE-OFFS:		
Property surrendered	72,237	88,131
Depletion	1,648,314	1,352,535
Depreciation	683,483	768,007
	2,404,034	2,208,673
Income before income taxes	5,342,471	2,860,165
Income taxes (note 7)	2,293,035	1,241,597
NET INCOME FOR THE YEAR	$ 3,049,436	$1,618,568
EARNINGS PER SHARE, based on weighted average of shares outstanding during the year	$ .40	$ .21

CONSOLIDATED STATEMENT OF DEFICIT

Year ended December 31, 1973 (with comparative figures for 1972)

	1973	1972
BALANCE AT BEGINNING OF YEAR	$ 1,832,105	$1,768,628
Net income for the year	3,049,436	1,618,568
	(1,217,331)	150,060
Dividends paid	1,837,000	1,682,045
DEFICIT AT END OF YEAR	$ 619,669	$1,832,105

ALMINEX LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1973 (with comparative figures for 1972)

	1973	1972
SOURCE OF FUNDS:		
Income before provisions, write-offs and income taxes	$7,746,505	$5,068,838
Income taxes	2,293,035	1,241,597
Funds provided by operations	5,453,470	3,827,241
Decrease in other assets	—	187,123
Increase in prepayments on future gas deliveries, net	162,354	—
Issue of capital stock	75,650	—
	5,691,474	4,014,364
APPLICATION OF FUNDS:		
Acquisition of properties	987,892	277,903
Development of proven properties	486,474	351,674
Additions to plant and equipment	425,817	1,142,290
	1,900,183	1,771,867
Decrease in prepayment on future gas deliveries	—	116,600
Increase in other assets	78,639	—
Dividends paid	1,837,000	1,682,045
	3,815,822	3,570,512
INCREASE IN WORKING CAPITAL	1,875,652	443,852
WORKING CAPITAL AT BEGINNING OF YEAR	2,058,814	1,614,962
WORKING CAPITAL AT END OF YEAR	$3,934,466	$2,058,814

ALMINEX LIMITED

and Subsidiary Companies

Notes to Consolidated Financial Statements

Year ended December 31, 1973

1. Basis of consolidation

The consolidated financial statements include the accounts of Alminex Limited and its wholly-owned foreign subsidiaries Alminex (U.S.) Inc., Alminex (U.K.) Limited, and A/S Norsk Alminex Limited.

2. Accounting policies

The costs of acquiring interests in proven and unproven oil and gas properties and the development costs of productive wells are capitalized. Property costs of an area are transferred from unproven to proven properties when production commences. Depletion is provided on proven property costs, including development costs of productive wells, on a unit of production method based on the total of estimated proven and probable reserves of oil and gas.

Lease rentals and other unproven property costs, dry hole costs and exploration expenses are charged to expense as incurred. The costs of properties which are abandoned are written-off when the properties are surrendered.

Depreciation on plant and equipment is provided on a diminishing balance basis at annual rates of 20% on gas plants, 30% on production equipment and at various rates on other equipment which are all maximum rates permissible for income tax purposes.

3. Property, plant and equipment

	1973			1972
	Cost	Accumulated Depletion and Depreciation	Net	Net
Proven properties, including development	$38,774,213	$12,685,626	$26,088,587	$27,235,953
Unproven properties	2,652,680	—	2,652,680	1,751,499
Plant and equipment	8,160,143	5,867,786	2,292,357	2,550,023
	$49,587,036	$18,553,412	$31,033,624	$31,537,475

4. Prepayments on future gas deliveries

The company has committed certain gas reserves and received $801,873 in prepayment for future deliveries. Prepayments on future deliveries included in income in 1973 amounted to $77,019 ($93,619 cumulatively). Included in current liabilities is $100,000 of the $708,254 liability at December 31, 1973.

5. Capital stock

During 1973 a total of 17,000 shares under option to employees were issued at $4.45 per share for a total of $75,650 cash.

6. Contingent liability

As security for the performance of work obligations, the company has deposited with the Government of Canada non-interest bearing demand notes aggregating $65,000 at December 31, 1973.

7. Income Taxes

For income tax purposes the company claims property and development costs in amounts which may exceed the related depletion and property costs reflected in its accounts. Capital cost allowances claimed for tax purposes and depreciation provided in the accounts are the same.

The Canadian Institute of Chartered Accountants recommends the allocation method of accounting for income taxes whereby a provision is made for income taxes based on earnings recorded in the accounts. The company however, in common with many other companies in the oil and gas industry in Canada, believes that income tax allocation in respect of property and development costs is not appropriate. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs. If the tax allocation basis in respect of excess claims for property and development costs had been followed in current and prior years, net income would have been increased by $68,000 or one cent per share in 1973 (decreased by $34,000 or one-half cent per share in 1972) and the cumulative amount of deferred tax credits to December 31, 1973 would be approximately $2,569,000.

The income tax allocation method in respect of property and development costs is the subject of a current study undertaken by representatives of the oil and gas industry at the request of the Canadian Securities Administrators. If the industry is unable to establish an alternative, with authoritative support, to the tax allocation method recommended by the Canadian Institute of Chartered Accountants, the company will consider adopting income tax allocation accounting in 1974.

8. Other statutory information	1973	1972
Number of directors	6	6
Aggregate remuneration of directors as directors	Nil	Nil
Number of officers	6	6
Aggregate remuneration of officers as officers	$80,412	$68,150
Number of officers who are also directors	4	4

Producing Interests:

OIL

UNITIZED FIELDS	UNIT INTEREST %	PRODUCTION 1973	PRODUCTION 1972
		(Barrels — after royalty)	
Alberta			
Swan Hills Unit #1	5.10	1,522,022	1,138,790
Virginia Hills Unit #1	3.82	308,874	242,073
Mitsue Gilwood Sand Unit #1	1.25	184,747	163,871
Harmattan-Elkton Unit #1	8.81	178,308	143,944
Inverness Unit #1	7.43	68,588	77,047
North Pembina Cardium Unit #1	0.42	27,973	34,244
Harmattan East Unit #1	1.13	37,827	29,083
Westward Ho Unit #1	7.65	19,261	16,924
Crossfield Cardium Unit #1	7.80	15,897	15,783
Freeman Unit #1	6.65	9,675	8,989
House Mountain Unit #4	1.68	3,533	3,768
Sundre Unit #1	0.21	2,222	2,020
Pembina Cardium Unit #3	1.88	910	1,079
Medicine River Glauconitic "A" Unit	4.38	11,699	6,280
Ontario			
Willey-Dunwich	3.92	2,653	1,584

NON-UNITIZED FIELDS	WELLS Gross	WELLS Net	PRODUCTION 1973	PRODUCTION 1972
Alberta				
Pembina	21	1.88	34,117	39,443
Erskine	21	2.63	16,658	16,080
Medicine River	5	0.88	5,866	1,541
Stettler	1	0.31	3,302	2,782
Other Non-Unit Interests	—	—	9,111	6,195
Saskatchewan				
Browning-Clarilaw	5	1.25	9,277	9,645
Midale South	1	0.40	3,485	6,143
Freemantle	1	0.50	5,121	3,347
United States				
Clabaugh, Wyoming	1	0.25	2,557	1,336
TOTAL	56	8.10	2,483,683	1,971,991
Daily Average			6,805	5,388

GAS AND NATURAL GAS LIQUIDS

UNITIZED FIELDS	UNIT INTEREST %		GAS PRODUCTION 1973	GAS PRODUCTION 1972*	NGL PRODUCTION 1973	NGL PRODUCTION 1972*
Alberta			(MMcf. — after royalty)		(Bbls. — after royalty)	
Carstairs Elkton Unit	10.15		3,466.674	3,415.160	186,923	162,627
Marten Hills South Gas Unit #1	20.03		1,309.138	1,322.781	—	—
Bindloss Viking Sand Gas Unit	7.97		780.735	803.740	—	—
Swan Hills Unit #1	5.10		877.798	609.207	—	—
Retlaw Unit #1	14.87		249.153	216.219	1,952	2,350
Whitecourt Gas Unit #1	5.47		225.044	251.712	339	—
West Provost Viking Gas Unit	6.66		162.898	182.772	164	277
Harmattan-Elkton Unit #1	2.84		663.112	173.861	70,645	76,746
Calgary Elkton Unit #1	0.40		155.409	154.886	5,767	5,786
Calgary Crossfield Unit #1	0.02					
Virginia Hills Unit #1	3.82		146.561	107.358	—	—
South Elkton Unit #1	11.74		72.163	71.938	1,927	2,071
Harmattan Leduc Unit #1	4.49		20.775	60.741	—	—
Atlee-Buffalo-Jenner Unit	7.38		39.575	40.881	—	—
Crossfield T.V. Unit #1	0.09		34.294	35.348	1,756	1,548
Inverness Unit #1	7.43		35.171	33.052	—	—
Erskine Gas Unit #1	2.79		15.990	17.828	—	—
Sylvan Lake Gas Unit #1	0.09		10.641	10.780	—	—
Harmattan East Unit #1	0.39		73.645	—	6,076	7,037
Mitsue Gilwood Sand Unit #1	1.25		75.279	68.244	10,327	10,975
Other Unit Interests	—		16.005	4.214	—	—
Saskatchewan						
Coleville Smiley Viking Sand Gas Unit	0.26		16.952	18.042		
Hoosier Viking Sand Gas Unit	0.25		7.302	7.856		
NON-UNITIZED FIELDS	WELLS					
Alberta	Gross	Net				
Pendor	6	0.90	131.640	123.405		
TOTAL	6	0.90				
ROYALTY INTERESTS			14.023	17.036		
TOTAL			8,599.977	7,747.061	285,876	269,417
Daily Average			23.562	21.167	783	736
OIL + NATURAL GAS LIQUIDS					7,588	6,124

SULPHUR

Alberta	PRODUCTION (Long Tons) 1973	PRODUCTION (Long Tons) 1972*
Harmattan Leduc Unit #1	4,297	5,065
Carstairs-Crossfield	—	—
Calgary Units	138	122
TOTAL	4,435	5,187

* Restated

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ALMINEX
LIMITED

Interim Report

June 30, 1973

July 31, 1973

TO THE SHAREHOLDERS:

In many respects Alminex was very successful during the first six months of 1973. Sales volumes of crude oil, natural gas, natural gas liquids and sulphur were higher than during the same period in 1972. As a consequence of both increased sales and prices gross income, including a minor amount received as interest on short-term notes, and net income were up sharply. Exploration expenditures were up slightly, and write-offs for depreciation and depletion and provision for income tax were higher.

PRODUCTION

The following table compares the net average daily sales volumes of crude oil, natural gas, natural gas liquids and sulphur during the first half of 1973 with the same period in 1972:

	1973	1972	Increase
Oil (bbls./day)	6,902	4,970	38.1%
Natural Gas Liquids (NGL) (bbls./day)	751	679*	9.9%
Gas (millions cu. ft./day)	23.6	21.0*	11.6%
Sulphur (long tons/day)	13	12*	8.4%

* Restated

At the instigation of the Alberta Government, for those Crown leases presently containing a provision which limits the royalty payable on crude oil production to 16⅔%, an election must be made, before July 31, 1973, either to amend the lease terms so as to allow the payment of higher royalties or to pay a mineral tax on reserves, retroactive to January 1, 1973. It appears doubtful that Alminex will pay the higher royalty on all such leases, but to the extent that it does so the oil sale volume reported in the preceding table will be reduced.

In order to maintain the foregoing rates of production, many of which are records, large capital expenditures are expected throughout the remainder of the year. However, in total, these sums are likely to be less than in 1972.

FINANCIAL

The unaudited financial results of your Company's operations during the first six months of 1973 are compared with those of 1972, in the following table:

	1973	1972	Increase
Gross Income — after royalty	$4,916,294	$3,634,660	35.3%
Exploration Costs (including unproven property expense)	996,297	954,197	4.4%
Cash Earnings — after all costs including exploration, but excluding depreciation, depletion and income taxes	3,326,442	2,193,130	51.7%
Net Income before taxes	2,049,910	1,138,875	80.0%
Provision for Income Tax	905,200	452,000	100.0%
Net Profit	1,144,710	686,875	66.7%

Effective on January 10, 1973, and May 1, 1973, the selling price of crude oil was increased by 20¢/bbl. and 25¢/bbl., respectively. Similarly, the selling price of condensate, one of the natural gas liquids, was increased by 20¢/bbl. on January 10, 1973, and 35¢/bbl. on May 1, 1973. Other natural gas liquids have been selling at firmer prices.

On June 29, 1973, a dividend of 12¢ per share was paid by your Company. This was an increase of 2¢ per share over the dividend paid in June, 1972.

EXPLORATORY DRILLING

Twenty wildcat wells were drilled on acreage in which Alminex has an interest, of which seven were drilled by others at no out-of-pocket expense to your Company. Of these wells, five were gas discoveries. The new gas wells are located at Hutton, Medicine River, Niton and Beaton in Alberta, and Caribou in British Columbia. Among the wells abandoned was one located in the Italian portion of the Adriatic Sea. Operations at a well in Wyoming, U.S.A., were terminated when loss of circulation prevented further drilling. As of June 30, one wildcat well was drilling on a large anticline in the foothills at Nose Creek, Alberta. The test was drilling below 15,000 ft. and may be drilled to a depth in excess of 16,000 ft. Panarctic Oils Ltd.'s well, Apollo C-73, located on Melville Island, Northwest Territories, is approximately 3/10 of a mile east of a permit in which Alminex has a 15% working interest. The anticline being tested extends onto your Company's acreage.

Murphy Oil Company Ltd., as part of its exploration of 5.4 million acres farmed in from Alminex, conducted a seismic program at Strand Fiord, Axel Heiberg Island. Adverse ice conditions prevented it from moving equipment to Devon Island and this program has been deferred until fall. Alminex is participating in a gravity survey in Ontario and seismic surveys in the Western Provinces and the Northwest Territories. Other seismic programs are planned in Ontario and New York, U.S.A. It is expected that these surveys will lead to the drilling of a number of exploratory tests. Further evaluation of the Athabasca oil sands lease, in which Alminex has a 12.5% interest, is expected to begin before year-end.

In June, at a U.S. Federal lease sale, Alminex participated to the extent of 1% in the purchase of Block No. A337 located in the Gulf of Mexico offshore from East Texas.

Alminex is currently evaluating a number of opportunities to join in exploration outside North America. Participation in foreign exploration programs are expected to increase in the future.

DEVELOPMENT

A total of 25 development wells were drilled, of which two were drilled by farmees. Twenty of these were completed or are indicated oil wells, 13 at Mitsue, three at Medicine River, two at Freeman and one each at Virginia Hills and Swan Hills, all in Alberta. Two gas wells were completed at Enchant and Carstairs, Alberta. The Mitsue oil wells include 11 drilled by the Mitsue Gilwood Sand Unit No. 1, in which Alminex has a 1.25% interest. A follow-up to our oil discovery at Clabaugh, Wyoming, was unsuccessful. Alminex expects to participate in drilling a number of development wells during the second half of 1973.

RESERVES

The successful development wells constituted in-fill drilling and did not add to reserves. Crude oil reserves declined by approximately the amount of oil produced during the period and by the amount of the increased Crown royalty on the small number of producing leases which do not contain a maximum royalty provision. Reserves of natural gas, natural gas liquids and sulphur also declined by the amounts produced. Until further information becomes available no new reserves were added as a result of the gas discoveries.

PRICE INCREASES

Effective July 1, 1973, the price of the small amount of gas sold by Alminex to Alberta and Southern Gas Co. Ltd. was increased from a range of 14.7¢/Mcf to 16.8¢/Mcf to a range of 25¢/Mcf to 27¢/Mcf. Under those contracts with TransCanada PipeLines Limited which provided for price redetermination negotiations to begin either on January 1, 1973, or January 1, 1974, the prices were increased from an average of 15.2¢/Mcf to 26¢/Mcf effective on November 1, 1973, and January 1, 1974, respectively. In addition, the prices received from Alberta and Southern and TransCanada will increase yearly by one cent per Mcf. Canadian-Montana Gas Company Limited also increased the purchase price of gas from the Pendor field to 23.5¢/Mcf with an escalation of ½¢/Mcf/annum. All amending agreements provide for price redetermination every two years. Approximately 50% of Alminex's total gas production is affected. These benefits will be eroded if higher Alberta gas royalties are imposed.

GENERAL

In order to ensure sufficient supplies of oil and gas to Canadians it is important that the oil industry be encouraged to maintain an adequate exploration program. Excessive demands on the industry in terms of taxes and royalties will reduce the amount of capital available to explore and the incentive to undertake the high risks involved.

DR. F. R. BURTON

It is with sadness that we report to you the sudden death on July 28, of Dr. Frederick Randall Burton, founder and President of your Company. The success which Alminex has achieved has largely stemmed from his original inspiration and his wisdom, hard work, patience and integrity. He will be greatly missed.

Mr. Joseph E. Reid, who was appointed a Director in May of this year, has succeeded Dr. Burton as President and Mr. M. A. Cooper, President of Falconbridge Nickel Mines Limited, has been elected a Director and Chairman of the Board.

On behalf of the Board of Directors,

M. A. COOPER,
Chairman.

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ALMINEX LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for six month period ending June 30, 1973 with comparative figures for 1972

(Unaudited)

	1973	1972
SOURCE OF FUNDS:		
Income Before Write-Offs and Income Taxes	$3,326,400	$2,193,100
Income Taxes	905,200	452,000
	$2,421,200	$1,741,100
APPLICATION OF FUNDS:		
Acquisition of Properties	$ 92,200	$ 115,200
Development of Proven Properties	224,400	311,300
Additions to Plant and Equipment	201,600	698,100
Advances to Subsidiary Companies	2,200	30,300
Dividends Paid	917,500	764,600
Increase (Decrease) in Other Assets	30,900	(187,100)
Repayment of Gas Sales Advance	39,600	—
	$1,508,400	$1,732,400
INCREASE IN WORKING CAPITAL POSITION	$ 912,800	$ 8,700
WORKING CAPITAL AT BEGINNING OF YEAR	2,056,200	1,614,700
WORKING CAPITAL AT JUNE 30	$2,969,000	$1,623,400